

Rep. Baird Takes On Capitol Hill Insider Trading-Baird, Business Week: Investors Benefiting Before Lawmakers Make Policy Moves- (December 16, 2005)

Washington, D.C. - Congressman Brian Baird today announced his intent to rein in Wall Street's influential connections to Capitol Hill. Congressman Baird, troubled by the growing political intelligence industry in D.C., has asked the House Ethics Committee to clarify whether or not lawmakers and staffers can share profitable, nonpublic information that has the potential to move financial markets.

Congressman Baird tipped a reporter at Business Week to the political intelligence business. A Business Week article published today confirms the existence of the practice and notes that just last month, investors profited in advance of a major asbestos liability speech and policy push by Senate Majority Leader Bill Frist.

From corporate tax breaks to the next big government contract, valuable information that can drive financial markets is constantly at our fingertips - and at the fingertips of big investors willing to pay a pretty penny for it. That sounds pretty darn close to insider trading, said Congressman Baird. I am very troubled by the fact that the average American investor is essentially shut out of this process.

The article also raises serious national security concerns. Foreign investors are getting into the American political intelligence business. This past summer, China's Xinhua Finance purchased the political intelligence firm Washington Analysis for an undisclosed amount as the bidding war for Unocal was heating up between Chevron and China National Offshore Oil.

The political intelligence business began in the early 1970s. The extent to which the business has grown is relatively unknown; because political intelligence firms are not lobbying members of Congress, they do not have to register their clients or their earnings.

Congressman Baird will call for congressional hearings to investigate the ethical and legal implications of the political intelligence practice and introduce legislation to regulate the practice in early 2006.

Washington Whispers To Wall Street

Low-profile firms enjoy a lucrative business selling "political intelligence"

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NEWS: ANALYSIS & COMMENTARY By Eamon Javers

Day traders were confused. On Tuesday, Nov. 15, they couldn't figure out why there was so much action in USG Corp. (), a Chicago building-materials company whose subsidiary is mired in asbestos lawsuits. The stock was trading at double the normal daily volume and would gain \$2.12 to close at \$61.55. But there wasn't any major news to power the run-up.

Public news, that is. Behind the scenes, Senate Majority Leader Bill Frist (R-Tenn.) had decided to override the qualms of Budget Committee leaders and press ahead with a bill to create a \$140 billion fund to relieve companies such as USG of their asbestos liabilities. Frist wouldn't announce his move until Nov. 16. But the news got to key Wall Street players a day early via a little-known pipeline: a small group of firms specializing in "political intelligence" that mine the capital for information and translate Washington workspk into trading tips.

The business started with a couple of cottage firms in the early 1970s. But now it's taking off. Industry insiders say the explosion of hedge funds has driven new clients and bigger dollars to Washington-watchers. "What hedge funds do is look for inefficiencies in the market," says one hedge fund manager who buys several firms' reports. "And Washington is

the world's greatest creator of [market] inefficiencies."

Unlike lobbyists, political intelligence outfits are not required to disclose their clients or annual revenues, masking the size of this very quiet business. One veteran estimates there are more than a half-dozen contenders collectively raking in \$30 million to \$40 million a year. Prominent players include the Washington research shops of Prudential (), Lehman Brothers (), and Stanford Washington Research Group, owned by Stanford Financial Group of Houston.

The business stretches beyond Capitol Hill. "We analyze public policy -- macroeconomics, the Fed, budget, trade, currency -- that affects overall financial markets, sectors, or companies," says Leslie Alperstein, a founder of the firm Washington Analysis. And while leaks such as Frist's asbestos news are welcome, Alperstein says his business is mostly about explaining trends. "If we only dealt in [hot tips], I wouldn't be living in Potomac," he says, referring to a pricey Maryland suburb. "It doesn't happen often enough."

LOOSE STANDARDS

It happens enough, however, to trouble some lawmakers. On Nov. 23, Representative Brian Baird (D-Wash.) asked the House Committee on Standards of Official Conduct to issue guidance for staffers sitting on some of the capital's most valuable information. "The possibility of direct kickbacks [is] enormous," says Baird, who read about the political intelligence business in The Hill, a newspaper covering Congress. He worries that the trafficking comes "very close" to insider trading.

But ethics experts say no one's breaking the rules. Hill staffers and government employees are forbidden from personally profiting from confidential data and can't share information that's classified or deemed secret by their employers. But within those loose standards, political intelligence is just another legal way for investors to perform due diligence. The intelligence operatives say that Congress, where decisions are made publicly, is fair game.

As the value of their product rises, the political intelligence firms themselves are becoming fair game. Alperstein sold Washington Analysis in July to China's Xinhua Finance, which is 6.5%-owned by government-controlled Xinhua News Agency. Xinhua picked up Washington Analysis for an undisclosed amount just as the bidding war between Chevron () and China's CNOOC () over the acquisition of Unocal was reaching its apogee this summer.

Chevron outmuscled CNOOC for that deal -- evidence that the Chinese didn't fully understand life inside the Beltway. That might be changing. For Chinese communists as well as Wall Street traders, there's increasing value in getting smart about capitalism, Washington-style.

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